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…From the South Atlantic

MERCOSUR AS A GEOPOLITICAL CONCEPT OF REGIONAL SOVEREIGNTY

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A common cultural identity and political will are necessary factors for a group of independent states to develop and sustain regional integration and trade agreements. Historically, neither such identity nor political will existed in South America, presenting the dual concept of a Hispanic and a Portuguese America, and this dualism can be traced back to the nineteenth century, when Simon Bolivar proposed the "Bolivarian Republic,"[1] gathering the "Hispanic America" independent from the political influence of the United States.

In the second half of the twentieth century, a cultural identity among South American countries gradually emerged. After the Second World War, the United States evolved from a regional power to a world superpower, and concurrently, its new interests grew worldwide. As one result, South America became a secondary priority, a kind of hemispheric "backyard." Moreover, the Cold War only increased the distance between the United States and its southern neighbors. The frustration that rose from this disregard led to the birth of a South American identity, independent from the United States.[2]

Yet the encompassing "Latin America" concept, as a clustered geopolitical class or group, as in Saul Cohen's "quartersphere of strategic marginality,"[3] had the effect of transforming a simple concept into reality. Thus, the second half of the twentieth century is the timeframe in which the development of the *Mercado Comun del Sur* (MERCOSUR) truly emerged as a *dynamic political agreement*.

A valid starting point for this process might be the year 1960, with the signature of the Treaty of Montevideo, between Argentina, Brazil, Chile, Mexico, Paraguay, Peru, and Uruguay, aimed to create the *Latin American Association of Free Trade* (ALALC), with the intent of forming a free trade area within twelve years. At the time, however, there was an inherent contradiction between the idea of integration (via trade liberalization) and the inherent protectionist logic of most states in the region. Governments were accustomed to thinking of protectionism as a stimulus to growth, and were reluctant to offer goods for liberalization.[4]

The recognition of ALALC's poor results led to a second Montevideo Treaty, in 1980, leading to a revised and reestablished association, known as the *Latin America Association of Integration* (ALADI). In this new framework, the integration process was softened by downsizing demands into more accessible bilateral or multilateral trade agreements.

During the 1970s, and up to the mid-1980s, movements towards economic integration among southern cone states were staggering. Most states lived under bureaucratic authoritarianism and military tensions between states were frequent. Argentina and Chile seemed to be perennial rivals and in 1978 almost went to war over disputed claims to islands in the Beagle Channel. At the other extreme, the rivalry between Argentina and Brazil since the nineteenth century embodied a typical balance-of-power struggle in the southern cone. As one result, the two states frequently clashed over boundaries and water rights. During the 1970s, Argentina appeared to pose the most likely external threat for the Brazilian military; thus, among four plausible scenarios in Brazilian doctrinal thinking, such conflict was taken as entirely possible.[5] Yet in the mid-1980s, during the transition toward democratic governance (first in Argentina in 1983, then Brazil in 1985, and finally Chile in 1990), this perception began to fade. As one consequence, diplomatic relations also shifted towards more conciliatory postures.[6]

To a large degree, the final push for MERCOSUR integration came from Brazil and Argentina, who, in the midst of this changing geopolitical landscape, launched vigorous efforts to improve relations. Indeed, just as relations between Brazil and Argentina began to thaw in 1979, Argentina, Brazil, and Paraguay signed a tripartite agreement—making it possible to solve disputes regarding border water resources, an issue that had previously undermined relations between Argentina and Brazil in the 1970s.[7]

Another important step was taken in the nuclear power arena. While regional rivalry had been particularly pronounced between Argentina and Brazil—as the only countries in Latin America with nuclear capability potential—it was commonly believed that a move by one state from the production of energy to the production of nuclear arms would provide a decisive military disadvantage. Mutual distrust was aggravated by a lack of transparency in diplomatic relations—and further fueled by a complete absence of informational exchanges, reciprocal visitation, or controls. With the return to democracy, however, a vigorous diplomatic effort focused on the "nuclear platform," beginning with the Foz do Iguaçú Declaration of November 1985. This agreement committed both nations to develop nuclear power only for peaceful use. Moreover, the declaration helped make nuclear energy policies compatible, fostered information exchange and reciprocal site visits, and created mechanisms for compliance and enforcement.[8]

The final steps towards the creation of MERCOSUR took place in July 1986 with talks between Brazil and Argentina, which led to the 1988 *Argentine and Brazil Economic Integration Program* (ABEIP). This accord established joint presidential meetings every six months, which would allow for additional protocols, and equally envisioned the creation of a bilateral market within the next decade.[9]

The end of the Cold War, however, dramatically changed the international context and the implications for regional and international trade. As the threat of communist ideology no longer existed, perceived "diminished" U.S. interest towards South America contrasted with increasing integration initiatives among the northern industrialized states, both in Europe and North America. Thus, many policymakers in Argentina and Brazil perceived that major economic integration between states would provide a unique way to strengthen regional positions in future dealing with the world's larger trading blocs. As a result of this perception, initial talks between Argentina and Brazil widened to include Uruguay and

Paraguay, culminating with the Treaty of Asunción, signed on 26 March 1991, which constitutes the legal document that established the basis of the MERCOSUR.

It seems worth noting that the 1990s provided new impetus to regionalism, not just because of MERCOSUR, but because of other agreements in the hemisphere: the Caribbean Community (CARICOM), the Central American Common Market (CACM), the North American Free Trade Agreement (NAFTA), the Group of Three (G-3), and the Andean Community (AC), as well as numerous bilateral agreements in the region.[10] Currently, there are twelve regional and subregional integration structures in the Americas, seven of them involving South American states.[11]

MERCOSUR—The Synergism

The Treaty of Asunción, signed during the boom of the 1990s, defined the objectives of the integration process and the mechanisms required to achieve them. The treaty equally recorded the decision of the four countries to extend the bounds of their own national markets, as a way of achieving better penetration within the international economic order, increasingly colored by globalization and regionalization. Its main objective, therefore, was the structuring of a large economically integrated area, of which the first stage would be the formation of a customs union, to be progressively consolidated until reaching more advanced stages of economic integration.

The main provisions of the Treaty of Asunción outlined the institutional structure for a "transition period," which was to run until 31 December 1994, and established the requirement that states should meet, before that date, as well as a program for a tariff reduction in interregional trade. Further, quantitative goals were set for successive six-month periods until full free trade was attained. The establishment of full free trade, and the concurrently definitive structure of a common market, was projected for 1 January 1995. During this "transition period," intergovernmental organs were established to treat common issues, from which the solutions or decisions should be made by interstate consensus. The adoption of any measure agreed upon, therefore, depended on the acquiescence of national governments.

Further, during this "transition period," Argentina and Brazil, the most important and significant actors in the treaty, experienced different economic conditions and concentrated on finding their own solutions to face the challenge of restructuring their states, at distinct paces and in different ways. Argentina, for example, had consistently relatively high rates of economic growth, whereas the Brazilian economy saw either negative growth or positive growth at rates lower than in Argentina. And Argentina's exchange rate policy of parity with the dollar contrasted with Brazil's policy of adjusting the exchange rate to account for inflation (which was favorable for Brazilian exports).[12] These asymmetries gave rise to tensions, as was to be expected, and Argentina, on several occasions, called for safeguard clauses and applied antidumping duties to Brazilian imports. While arguable whether these tensions could have been avoided by community policies on compensation and industrial conversion, Bouzas has noted that this dynamic tension kept the integration process from being blocked by the sheer amount of resources that would have to have been spent on the costs of adjustment.[13]

Two agreements concerning investment were signed during the "transition period." The *Protocol of Colonia del Sacramento*, envisioning the promotion and mutual protection of investments in MERCOSUR (December 1993), which ensured national treatment for investment in the region;[14] and the *Protocol on Promotion of Investments from States Not Members of MERCOSUR* (August 1994), which addressed third-country investments and guaranteed the right of each member country to promote and admit external investment. These protocols did not aim to establish an all-encompassing discipline common to the countries of MERCOSUR; rather, they can best be understood as defining a conceptual framework, setting out guidelines for unallowable actions.[15] The drafters of these guidelines envisioned the settlement of future disputes through consultation, recourse to a court with jurisdiction in the member country in which investment was made, or, as a last resort, to arbitration panels.

In an overall evaluation, measured against the goal of forming the Common Market, the "transition period" produced scant results for the implementation of common policies, regulations, and institutions. But considering the relatively fragile ties of interdependence and the economic asymmetries among the member countries, the overall inter-trading results of MERCOSUR, especially after the Treaty of Asunción, were stimulating, experiencing an average annual increase of 26.84 percent in the 1991–1994 period.[16]

In the wake of this moderate trading success, the Brazilian government, in 1993, proposed the creation, within ten years, of a *South American Free Trade Area* (SAFTA), encompassing MERCOSUR, Chile, and the Andean Pact countries.[17] The proposal was endorsed by the other members of MERCOSUR, but the format of simultaneous negotiations was not implemented; instead, priority was accorded to separate agreements between MERCOSUR and specific countries, as indeed happened later in 1996. The Protocol of Ouro Preto, dated 17 December 1994, marked the end of this "transition period." In the institutional realm, the Protocol introduced few changes, except that MERCOSUR came to have international juridical personality, which enabled it to participate, as a single entity, in international negotiations.

MERCOSUR—The New Impetus

The end of 1994 would witness another landmark, an unforeseen development that produced significant change in the course of the MERCOSUR integration. The sudden initiative of the Clinton administration, in December 1994, to unilaterally call for a Summit of the Americas in Miami—envisioning the expansion of NAFTA to include Chile, and the creation of a hemispheric wide *Free Trade Area of the Americas* (FTAA) by 2005—was significant. This enterprise was based on the perceived success of NAFTA, which had become a White House "mantra" for a new relationship with Latin America.[18] Despite the agreement of all participating countries on the establishment of negotiations envisioning an FTAA agreement by 2005, the overall goal of the United States seemed to be a general commitment to the idea of a hemispherical free trade area and to bring Chile to the NAFTA side (in a divide-and-conquer strategy). During this same period, nonetheless, the Mexican peso crisis thwarted this ambitious plan.

The immediate consequence of the crisis was the interposition of obstacles by the U.S. Congress, preventing the U.S. government from expanding existing trade agreements and restricting the "fast-track" trade authority for the president.

On the South American side, these crises had a catalytic effect on integration, alerting political leaders in Argentina and Brazil to the vulnerabilities of erratic global financial movements, and thus stimulating an unprecedented sense of mutualism.[19] This mutual awareness also led to a new stage of interstate relationships.[20] By 1995, regardless of its achievements, MERCOSUR failed to accomplish one of its main goals—the implementation of the common market by 1 January. Instead, an "imperfect" customs union came into force at that date, with full customs union to take effect in 2006. The "imperfect" character of this union was characterized by trade exceptions that took into account different productive structures of member countries.

In December 1995 the commitment to the integration project was reinforced through MERCOSUR's *Program of Action to the Year 2000*, or *Agenda 2000*. In this program, the implementation of the mechanisms needed to consolidate and improve the customs union had high priority, as did the negotiations regarding the deepening of integration as well as the broadening processes that would be undertaken.[21] Although it is beyond the scope of this essay to describe the status of the negotiations called for, in the *Program of Action to the Year 2000* it seems clear that the program marked the beginning of a new round of negotiations, concerning proposals on the environment, consumer defense, and technical rules. In December 1997, a normative framework approved to defend against imports dumped from non-MERCOSUR countries was created, along with a protocol on trade in services within MERCOSUR.

Following the Miami Summit on December 1994, a series of four ministerial and vice-ministerial meetings followed up on the summit and prepared for the 1998 Summit in Santiago. From MERCOSUR's point of view, perhaps, the most significant of these encounters was the third meeting, held in Belo Horizonte, Brazil, on May 1997. In this meeting, for the first time, the United States formally acknowledged that the FTAA should coexist with other subregional trade groups, such as NAFTA and MERCOSUR. More significantly, the integration of MERCOSUR became evident when, just prior to the meeting, Brazilian President Fernando Henrique

Cardoso stated that "Brazilian, Argentinean, Paraguayan and Uruguayan negotiators sit together and speak through the representative country that holds the *pro tempore* presidency of MERCOSUR. There is no individual position; the four countries negotiate and make decisions that are MERCOSUR decisions."[22]

That statement, apparently, was more than just rhetoric. One month previous to the ministerial meeting in Belo Horizonte, MERCOSUR partners agreed to present a common position in the FTAA talks, which generally opposed the U.S. desire to speed up negotiations. Later that same year, reinforcing already existing confidence building measures, Argentina and Brazil signed the *Rio Declaration*, which defined the status reached by the bilateral relations between those states as a "strategic alliance."[23] The U.S., notwithstanding, maintained its efforts towards the FTAA, even without fast-track negotiating authority. But as President Cardoso noted in a radio interview: "Without fast-track authority, the negotiations for the implementation of an FTAA are only imaginary."[24]

At the Belo Horizonte meeting, the political unity of MERCOSUR nations was seen as a watershed event. For the first time in the continental negotiations for integration, the United States was confronted by a unified bloc that represented the fourth-largest trading market in the world.

MERCOSUR—Broadening before Deepening

The broadening process of MERCOSUR can be better understood in the light of its Brazilian-inspired concentric expansionist strategy, in which, following the establishment of the Customs Union, there would be the implementation of a series of trade agreements with all South American countries, leading to the final consolidation of a SAFTA. Only after reaching this level of integration would negotiations regarding agreements with the European Union (EU) or the establishment of an FTAA take place. In other words, in the Brazilian vision, the MERCOSUR project had gone beyond its intended objectives, and now involved the consolidation of the geopolitical concept of a fully integrated South America.

Nevertheless, there were holdbacks to the full implementation of this strategy, most especially the need for full consolidation of MERCOSUR—as an endorsement of its expanding project in

South America. Further, the interests of the other MERCOSUR members required complementarity with individual members. Finally, the interests of the other South American countries required balancing and shaping in line with overall common objectives. Collectively achieved, these aspects combined would constitute the basis of selective regional sovereignty.

In the broadest assessment, it seems that the achievement of a common and coherent goal is the most difficult and unpredictable task. To be blunt, most countries in the region have a tendency to practice a "pendulum" foreign policy between power contenders, favoring a balance-of-power, instead of allowing the growth of a regional single hegemon. In this regard, Brazil, a natural opponent to this "pendulum" behavior in the South American realm, practiced a similar policy to dampen the U.S. proposed FTAA by encouraging a relationship between MERCOSUR and the EU.

The broadening of MERCOSUR thus took its initial steps with the free trade agreements signed with Chile and Bolivia. The difficulties overcome in these processes stand now as assets to future agreements.

MERCOSUR and Chile

Chile has always been isolated from the rest of the South American continent by the Andean Mountain Range, which constitutes an almost impenetrable natural barrier to the natural flow of commerce. Further, Chile's historically hostile relations with its immediate neighbors has impressed a political blockade with the rest of the continent. Eastern obstacles, coupled with a wide coast facing the Pacific, traditionally oriented Chile's foreign commerce axis toward South East Asian markets and its external policy toward a multilateral worldwide trade option. Unilateral adherence to exclusive South American agreements was not a preferential option for Chile.

Nevertheless, recognizing the need to engage in broadened regional agreements, the Chilean government never lost its multilateral inclinations. In terms of external commerce, recent governments have pursued three main objectives: to increase the volume and benefits derived from international commerce; to increase the negotiating power of Chile within the World Trade Organization (WTO); and to reduce the possibility of being isolated outside of any regional blocs as these develop.

The Chilean government thus proposed a Free Trade Agreement with NAFTA, and the Chileans, deceived by the American government's delay on approving their membership in NAFTA, took matters into their own hands. In June 1996, Chile signed a Free Trade Agreement with MERCOSUR, assuming the status of associate member, which included a commitment to gradually and automatically eliminate all trading tariffs, and to provide for the establishment, within a decade, of a free trade zone. The character of the agreement with MERCOSUR did not force Chile to subordinate its economic policies to that of other associated countries. Thus, retaining a certain independence, Chile made a tentative move toward a possible future full agreement.[25]

MERCOSUR and Bolivia

During a similar time period, Bolivia and MERCOSUR also entered into a free trade agreement; in this case, a special waiver to engage in bilateral negotiations with MERCOSUR was sanctioned to Bolivia and by the AC.

It would be natural to assume that Bolivia had the geopolitical right to participate in the MERCOSUR integration process as a full-scale member. Observing the Bolivian position on South America, we can see that MERCOSUR is its main neighbor, since 70 percent of the country's frontiers border three member states of this bloc. Similarly, Bolivia coordinates issues over the "Prata Basin" in the same manner as MERCOSUR members, and moreover, integrates similarly with Brazil on "Amazon Basin" issues. Notwithstanding all these geographic aspects, there is a political issue associated with this behavior: Bolivia is a member of the "Prata Basin" Treaty, signed in April 1969, committing Bolivia and the four members of the MERCOSUR treaty to the common purpose of promoting the harmonic development and the physical integration of the basin.

Nevertheless, Bolivia was excluded from the initial establishment of the "Asunción Treaty" (for the same reason that Chile was excluded) because of its Article 20, which stated that the adherence was granted to any country member of ALADI, with the exception of those already participating in other regional agreements. Since

1992, however, Bolivia's interest in MERCOSUR has only grown. The negotiations on agreement thus started in 1994, culminating with the signing in December 1996 of the final Free Trade agreement between Bolivia and MERCOSUR. As in the accord with Chile, the agreement between MERCOSUR and Bolivia had, as its final objective, the establishment of a free trade zone, as well as the elimination of the majority of the trading tariffs, as it came into force, and foreseeing the total tariffs elimination.[26]

MERCOSUR and the Andean Community (AC)

Negotiations between MERCOSUR and the AC turned out to be more complex than those held with Chile and Bolivia. Beginning with an initial delay due to the undefined aspect of how AC would negotiate as a group with MERCOSUR, each member state separately entered into discussions, in the model known as the "4+1"—with the additional inclusion of Bolivia and Chile. The temporary suspension of the Peruvian membership in the AC also affected the negotiations on both sides. Finally, when the AC decided to negotiate as a collective whole, other significant differences emerged. Some of these difference hinged on the permanent or temporary character of the tariff exceptions, the size of the sensible products lists, and other issues related to commerce, agriculture, and export zones.

As negotiations went on, though, all parties agreed on contentious issues, such as the extent and exception period for specific products. A common solution became difficult inside MERCOSUR, since there was no common position. Thus MERCOSUR members, on individual bases, accepted some solutions in bilateral terms but there was no common consensus.

The magnitude of differences between MERCOSUR and the AC made it impossible to achieve a multilateral agreement, and so, in April 1998, MERCOSUR and the AC officially recognized their common desire to create a Free Trade Area in the year 2000. This intention was never implemented.

Following this frustrated agreement attempt, Brazil, Argentina, and later on, Uruguay, systematically established bilateral negotiations with the AC, leading to agreements between the two trading blocs, in the "4+4" modality.[27]

MERCOSUR and the European Union (EU)

An important chapter in this MERCOSUR legacy addresses the integration process with the EU, considered by some scholars to be an innovative experiment in the economic interregional realm.

As a customs union, the EU had never signed a free trade agreement with another customs union; indeed, no such accord had ever been signed between two customs union. Indeed, this reality could be one of the motivating factors behind the signature of the *EU-MERCOSUR Inter–Regional Framework for Cooperation Agreement*, in Madrid on 15 December 1995. This framework established a fundamental landmark and was signed on the same day that the *Ouro Preto Protocol* dispositions came into force, locking in MERCOSUR's option for a customs union.

If one of the motivating triggers of the agreement was its uniqueness, its explicit objective was to establish an interregional association, linking two regions in a political, financial, social, and cultural relationship. The implicit goal was to reach an agreement on free trade, before the establishment of the FTAA.[28] In the process of building the MERCOSUR–EU agreement, it seems significant to emphasize that the EU considered MERCOSUR to be an economic bloc similar to the EU. Indeed, EU trade commissioner Pascal Lamy stressed that the EU would only negotiate if MERCOSUR maintains its custom union, rather than a country-by-country basis. This posture officially recognized the process of the South American regional integration, and stimulated it, as it obliged members to reconcile differing national interests and to reach a collective response.[29]

In an overall evaluation, notwithstanding the difficulties in the talks between EU and MERCOSUR, it remains a vital interest that MERCOSUR establish a free trade area before 2005 so that the interregional agreement will stand as a strong asset to support MERCOSUR's interests on an FTAA agreement.

MERCOSUR–FTAA: Constraints

The FTAA concept has its origin in 1990, under then President Bush,[30] and was again taken in 1994 by President Clinton.[31] At the Executive level, at least, the project appears to have bipartisan support.[32]

In December 1994, the main interest of the U.S. administration was to extend its NAFTA agreement success to all the Americas, envisioning the creation of an exclusive free trade zone. The U.S. thus envisioned tighter control over trade for all the Americas, and, in parallel, the establishment of a "restriction barrier" against the expanding economic interests of Europe and Asia. As a counter-response, undoubtedly, the possibility of a successful negotiation with the FTAA was one of the factors behind the European interests in the trade agreement talks with MERCOSUR.

Despite the Brazilian opposition regarding the FTAA proposal, it seems worth noting that Brazil's original support for the FTAA was not in relation to the idea of a hemispheric free trade area but rather in disagreement with a U.S.-sponsored agreement. This particular stance can be attributed to several factors. Primarily, U.S. resentment was the dominant sentiment among Brazilian political and military elites, from the 1970s up to the 1980s, stemming from perceived negligence of the U.S. government toward all South American and Brazilian interests.[33] It was sensed that the Brazilian development was grossly incompatible with U.S. development, a perception strongly reinforced as increasingly unfriendly trade investment disputes began to dominate the Brazilian-U.S. agenda. This perceived bilateral incompatibility was summarized in a popular phrase: "Whatever is good for Brazil was surely bad for the U.S.—and vice-versa."

Secondly, most of the diplomats, academics, and politicians currently occupying positions of power and influence in Brazil are individuals whose formative period occurred during the so-called national populist era, in which exploiting anti-American feelings was an important instrument of political mobilization. In the specific case of Itamaraty (the Brazilian Foreign Office), many officials reached maturity at a time when the survival of a national project of development and modernization seemed highly contingent on the country's capabilities to find alternatives to the political subordination and economic dependence on the U.S.[34]

In the 1970s, when Brazil's military regime undertook its great power project, embodying the expansion of industrial capacity, diversifying foreign economic relations, and pursuing military objectives such as the development of an indigenous armaments industry and the quest for self-sufficiency in sensitive technologies, the U.S. interceded on issues regarding nuclear nonproliferation, trade, population control, environmental protection, human rights violations, territorial waters, nuclear energy, and denial of access to information associated with high technology. This only contributed to contention in the U.S.-Brazil bilateral agenda.[35] Moreover, the change in U.S. attitude toward Brazil ushered in by the Carter administration seemed manifestly concerned with human rights and nuclear nonproliferation. Yet these apparent new emphases were matched by a more assertive Brazilian foreign policy, leading to changes in U.S. attitudes toward Brazil.

Concurrently, the Brazilian military regime changed its U.S.-oriented external policy to a more global approach: exploring the European option for the acquisition of sensitive technologies and as a market for raw materials and commodities exports; a new focus on Latin America and Africa, as potential customers for Brazilian manufactured products; and the approach to the Middle East with an eye toward guaranteeing its oil supplies.

The transition from military to civilian rule, associated with an increasing international economic vulnerability and continuing U.S. negligence, led to a change in Brazilian foreign orientation. This shift led to full cooperation with the countries of the Southern Cone, culminating in 1991 with MERCOSUR. This new alignment only broadened and deepened the distance between U.S. and Brazilian common trade interests. Notwithstanding, the awareness of the growing costs of policy conflict with Washington led diplomatic, political, and business elites to a relative consensus on the undesirability of a permanently negative agenda with the United States. Elites envisioned the restoration of positive relations and also foresaw a readjustment of economic and industrial issues such as trade liberalization, privatization, economic deregulation, computer technology, and intellectual property rights, as well as security matters and, last but not least, such global issues as human rights, nuclear nonproliferation, and the environment. In its move towards rapprochement with the United States, Brazil, unlike Argentina, did not go so far as to push for a sort of peripheral partnership. Its opposition in regard to the FTAA, for example, remains unaltered. Good relations with Washington, nonetheless, became a priority for the Fernando Henrique Cardoso administration, particularly since Brazil achieved economic stabilization.[36]

Apart from conflicting historical aspects, Brazil prioritized MERCOSUR, macro economics, and inflation stabilization. Following the 1994 Presidential Summit, the FTAA was already taking shape as a U.S.-inspired project. Thus, Brazil found itself having to react to events rather than leading them—the exact opposite of its experience with MERCOSUR. The FTAA was introduced conceptually at a difficult time for Brazil; it coincided with the shift from a large balance-of-trade surplus in 1993 to a severe deficit in 1995 and in subsequent years. Thus, Brazil was not in a strong position to contemplate a further round of tariff reductions and was already facing serious domestic opposition to the trade liberalization measures already adopted.[37]

Brazil's wariness of a imposed U.S. trade agenda and regulations due to the enormous gap between the U.S. economy and those of individual South American countries constitutes the main reason why Brazil determined that MERCOSUR should negotiate as a bloc in the FTAA. The Brazilian belief was that a strong and united South American economic bloc, represented by MERCOSUR—or ideally SAFTA—supported and recognized by EU, and negotiating as a bloc, would be a formidable force in the FTAA negotiations. In short, Brazil's posture was to delay both the start of negotiations and the implementation of any FTAA agreement; both positions, certainly, were not welcomed by the United States.[38]

(NAFTA + MERCOSUR = FTAA): Is This Equation Possible?

The melding of NAFTA and MERCOSUR is both promising and unachievable. This was best illustrated when President Clinton visited South America in October 1997 and categorically stated that the MERCOSUR could very well survive in a future FTAA. Yet, almost simultaneously, U.S. Secretary of State Madeleine Albright and U.S. Trade Representative Charlene Barshefsky were verbally attacking MERCOSUR, arguing that MERCOSUR progress was harmful to the FTAA.

So far, as a result of meetings held since 1995 between trade and economic ministers, participating nations have agreed on a relatively uncompromising formula for the FTAA that will build on existing subregional and bilateral arrangements. These arrangements remain ambiguous and vague, nonetheless, in several aspects related to the evolving negotiations process, and in the base assumption that the existing subregional integration agreements are initiatives converging in the creation of the FTAA. Even though NAFTA and MERCOSUR are, generally speaking, compatible with the legal framework of the WTO, they do not represent similar concepts of regional economic integration. Various criteria can be used to compare regional economic integration agreements. These agreements can be distinguished in terms of their fields of application, in terms of their envisaged levels of integration, or in relation to the multilateral framework of trade liberalization.

In our examination here, it is more relevant to examine the differences on how members formulate commitments; the particular dynamics of each of these regional models; and the measures of extent to which these agreements constrain economic management by member states. It is in these aspects that the core of the main difficulties exists in achieving hemispheric agreement. The scope and language of these types of agreements give a valid indication of how they will evolve in the future. In this sense, NAFTA is a lengthily comprehensive and extremely detailed agreement, and its enforcement leaves little leeway for politics. On the other hand, MERCOSUR is a simple and evolving agreement with ambitious goals, resembling a loose structure that is evolving to meet the needs of its members, and that remains in part to be determined, although it has attained a certain maturity over the past years, throughout the Brasília (1991), Colonia (1993), and Ouro Preto (1994) Protocols, which defined key elements of the agreement, yet which were left unsolved following its establishment in 1991.

NAFTA differs fundamentally from MERCOSUR. The interaction in the NAFTA agreement has a legal dynamic nature; its implementation has been remarkably smooth to date, as everything had happened automatically, without political intervention. MERCOSUR, conversely, is a politically dynamic process; its implementation cannot be evaluated strictly on the basis of the formal time frame contained in the Treaty of Asunción. Rather, only in ongoing process of adjustment can parameters develop gradually through direct negotiations, taking in account specifics and needs of each member state, allowing backtracking, and sacrificing, on occasion, standards and established deadlines for the sake of national interests or short-term constraints.

Ultimately, the success of economic integration agreements depends to a large extent on the existence of shared views among states regarding economic affairs. NAFTA and MERCOSUR are thus entirely different conceptions. NAFTA is a constraining free trade zone, with a striking level of state disengagement, which can have a distorting effect on production or trade. MERCOSUR, on the other hand, is a flexible agreement, a work in progress, and does not claim to offer a concrete vision of the government's role in the economy. Such relative flexibility allowed the coexistence of somewhat different political and economic systems. Without such flexibility, it is unlikely that Brazil and Argentina would have ever agreed upon a joint cooperative project.

Yet another obstacle concerns the 2002 presidential elections in Brazil. Luis Inácio Lula da Silva holds well-known negative views on free trade, deregulation, and foreign investment. While true that Lula's leftism would not introduce anything into Brazilian trade policy that is not already substantially there, other elements of his program might well provoke massive flight of human and financial capital and a collapse of the Brazilian economy—amongst the world's largest and certainly the most influential in South America. This in turn could provoke catastrophic consequences for Brazil's MERCOSUR partners. As a minimum, one could be reasonably certain that a Brazil governed by Lula would refuse to sign the final FTAA accords in 2005, even assuming that they appear on schedule.

The differences between NAFTA and MERCOSUR seem to preclude the possibility of joining the two agreements. They reveal two different national mindsets, different political customs, different approaches, different levels of economic and legal development, and they cannot be combined without sacrificing the fundamental principles and objectives of one or the other. NAFTA and MERCOSUR will probably never become one. The question is not so much which agreement will supplant the other, but rather, how they will influence the creation and shape of the FTAA.

There is little evidence that a hemisphere-wide trade agreement based only on MERCOSUR or NAFTA models would establish a solid foundation for an economic relationship that would foster sustainable development and economic progress to all member countries. Instead, integration through the FTAA must be a "nouvelle" structure, tailored to serve as a tool for development that benefits all, at an even pace. The FTAA may be a viable project if, from its very first moments, it reflects a mutual confidence and respect among all states, and an acceptable flexibility prevails in the regulations to adapt to political shifts and changing economic situations of the member states. Among the trade alternatives to the FTAA, negotiations between economic blocs can also be a valuable tool to speed and expand trade. By this logic, such blocs have *already* established parameters and common agreements.[39]

At the Summit of the Americas, former President Clinton proclaimed that with the FTAA "We can create a partnership for prosperity where freedom, trade, and economic opportunity become the common property of all the people of the Americas."[40] To transform this statement to reality, a third economic integration model ought to be achieved, one that is unique and comprehensive and one which includes the application of the successful experiences and lessons leaned from the histories of MERCOSUR and NAFTA. In the Americas, history is coming to an important turning point. The failure of the FTAA initiative could bring a new era of distrust, as well as a return to bitter relations between the United States and the South American countries.

MERCOSUR: A Short Prospective View

The political, economic, social, and cultural integration of South America is much more than a foreign policy goal for the Brazilian government; these objectives are written in the Brazilian Constitution.[41] Thus, the administration of Fernando Henrique Cardoso established these objectives as foreign policy goals. On careful consideration, one can identify two dimensions associated with MERCOSUR—a vertical dimension represented by the strengthening and embodiment of the agreement, and a horizontal dimension, which translates into expansion throughout South America. The evidence of common confidence regarding MERCOSUR's future corroborates belief in these goals. As a result, the Brazilian and Argentinean currency crises of 1999—despite the dire predictions of international analysts as disastrous for the MERCOSUR agreement—proved instead to be catalysts for what has been called "The 2000 Takeoff of MERCOSUR." Indeed, following these crises a common prescription in the South became "The solution to MERCOSUR is more MERCOSUR."

The evolution of the southern cone concept as a full South American integration came to fruition in the First Summit of South American Chiefs of State, held in August 2000, with the idea that the MERCOSUR, the AC, the Prata Basin Treaty, and the Amazonian Cooperation Treaty are all elements of one long and complex historical process. This concept was reaffirmed later, as a result of the 3rd Extraordinary Meeting of the MERCOSUR Common Market Council, held in Buenos Aires in February 2002, when Chiefs of State celebrated the "Ushuaia" Protocol, which commits to democratic governance in MERCOSUR. Government leaders further reassured the South American integration process as a central goal in one of the concluding resolutions.[42]

For the Brazilian government, the geopolitical concept of "South America" as a single entity is a new conceptualization that requires two main efforts: the development and expansion of interstate highway and energy net systems and the structuring of South America to face the hemispheric integration process.

Conclusion

MERCOSUR seems to be well on the road to becoming South America's first robust trading organization. Its actual geographic dimension, slightly less than 12 million square kilometers—more than four times the size of Western Europe—its growing potential market of 200 million people with a joint GNP of more than U.S. $1 trillion—which places it among the four largest economies of the world—and its sheer volume of trade make it an irreversible process. Despite these impressive figures, MERCOSUR cannot be considered the ideal economic integration. Rather, it has been sustained in a very delicate equilibrium condition, and its maintenance in this balance undertook numerous political and governmental direct interferences.

One of MERCOSUR's unique characteristics is that political desire was followed, in time, by a progressive commitment to tie common economic objectives. This pathway appears to differ from trading blocs that were established solely for economic trade interests. Although MERCOSUR precludes a common market as an end state, it has reached a fair stage of free trade. It offers certain advantages for the member states because it is politically flexible. By contrast, the NAFTA model portrays the American-Canadian successful footprint: trade measures by straight regulation.

Culture and history have played key roles in MERCOSUR's development. In contrast to other economic blocs such as NAFTA and EU, whose detailed legal framework leaves little room for political debate, MERCOSUR more closely resembles a loose structure constantly evolving to meet the needs and demands of its members. Its final structure remains in large part to be determined. Thus, MERCOSUR is a dynamic political agreement that "self-adjusts" in its ongoing process, through direct state-oriented negotiations.

Despite the rhetoric of President Fernando Henrique Cardoso's statement that "MERCOSUR is our destiny, whereas the FTAA is a mere policy option"—it is chiefly Brazil that has blocked MERCOSUR's own deepening expansion. This seems a bit of a paradox, since Brazil has insisted that MERCOSUR should be a customs union with a relatively high tariff to protect its capital-goods industry.[43] From a personal perspective, the U.S. impetus for the FTAA, and the increasing proximity of the 2005 deadline, demand that Brazil must avoid its "waiting game" and accept the necessity of MERCOSUR's integration. To attain this objective, Brazil must be prepared to share sovereignty and indeed allow the birth of a new "regional concept of sovereignty": selective in nature, established upon determined common multinational objectives, and bonded by a unique geopolitical concept of South America.

Today, it is possible to consider this possibility and to it in the foreseeable future. If wisdom and common sense prevail, and if we are able to sustain and extend current trends, this process, only now beginning, will consolidate MERCOSUR into a South American economic agreement with a status of a major world economic bloc that is politically stable, economically sound, and socially fair.[44]

Notes

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3. Referenced in Mackubin Thomas Owens, "In Defense of Classical Geopolitics," *Naval War College Review*, Volume LII, Number 4 (Autumn 1999).
4. Lia Valls Pereira, "Toward the Common Market of the South," *MERCOSUR —Regional Integration World Market,* edited by Riordan Rouett (Boulder, Colorado: 1999): 7–9.
5. Geraldo L. Cavagnari Filho, *Estratégia e Defesa (1960–1980)*, NEE—Campinas University, August, 1994, 48–52.
6. David Pion-Berlin, "Will Soldiers Follow? Economic Integration and Regional Security in the Southern Cone," *Journal of Interamerican Studies and World Affairs*, Beverly Hills, Spring 2000.
7. Valls Pereira, 9.
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9. Joaquina Pires-O'Brien, "Latin American Integration and the Formation of MERCOSUR," *Contemporary Review*, June 2000.
10. Robert Devlin et alia, "Some Economic and Strategic Issues in the Face of the Emerging FTAA," *The Future of Inter-American Relations*, edited by Jorge I. Dominguez (New York, 2000).
11. Regionalization, Globalization, and Nationalism: Convergent, Divergent, or Overlapping. http://www.ciaonet.org/wps/sites/klg.html (September 26, 2001).
12. Valls Pereira, 11–12.
13. Roberto Bouzas, "La agenda económica del MERCOSUR: Desafios de Política a Corto y Mediano Plazo," *Integración y Comercio*, Buenos Aires, April 1996, 64–87.
14. "National treatment" for investment is an expression used in GATT (the General Agreement on Tariffs and Trade) and regional agreements, meaning that foreign investment will be treated under the same rules applied to investments by national residents.
15. Miguel Izan, "Evolution, Analysis y Perspectivas del Mercado Comun del Sur," *Economic Commission on Latin America and the Caribbean* (Santiago de Chile, 1997).
16. Devlin, Table 8–3.
17. At the time, Chile was no longer part of the Andean Community.
18. Riordan Roett, "U.S. Policy Toward MERCOSUR: From Miami to Santiago," in *MERCOSUR Regional Integration, World Markets*, 111–123.
19. The advance of mutualism among Southern Cone states is one of the many examples of the recent worldwide trend toward intergovernmental cooperation, based on the identification of common interests and values.
20. Monica Hirst, "MERCOSUR's Complex Political Agenda," in *MERCOSUR Regional Integration, World Markets*, 38–39.
21. These issues are environment,labor relations, employment and social security, culture, health, education, science and technology, police cooperation, and migration.
22. MERCOSUR, *Revista de Negocios*, 1997.
23. Hirst, 41–42.

24. Gazeta Mercantil Latinoamericana, 1997, 8.
25. Roberto Bouzas and José Maria Fancelli, *MERCOSUR: Integración y Crecimiento*, OSDE Foundation—National University of San Martin, Argentina. http:// osde.com.ar/fundacion/13/pdf/Mercosur.pdf (February 2002).
26. Flores, Alfredo V. Soane, *Ampliación y Profundización de la relación Especial con el Mercosur*, Summer 2000.
27. Bouzas and Fancelli.
28. Ibid.
29. *MERCOSUR's—European Union Tariffs Talks*. http://www. ciaonet.org/pbei/oxan/oxa07262001.html (September 2001).
30. President George Bush unveiled a project titled "Enterprise of the Americas Initiative" (EAI), a hemispheric program envisioning the establishment of a free-trade zone.
31. Summit of Americas in Miami.
32. Guimarães, Milton, *Integration of the "Americas" in the 21st Century* (Carlisle Barracks, Pennsylvania: U.S. Army War College, 2001).
33. References to Brazil and South America in general as the U.S. "backyard" remain common.
34. José Augusto Guilhon Albuquerque, "Relações Brasil-Estados Unidos e a Integração Continental," *Política Externa, Vol 5, Nr 1*, August 1996.
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42. Christian Lohbauer, *As Relações do Brasil com seus vizinhos da América do Sul,* Gacint—University of São Paulo, São Paulo, Brazil, Summer 2001.
43. "Leaders: Some realism for MERCOSUR," *Economist,* 31 March 2001.
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